

**Gleb Zaslavsky, Esq.**

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**To:** mining  
**Subject:** FW: Investor Update | March 2019

From: Iterative Capital [REDACTED]@iterative.capital>  
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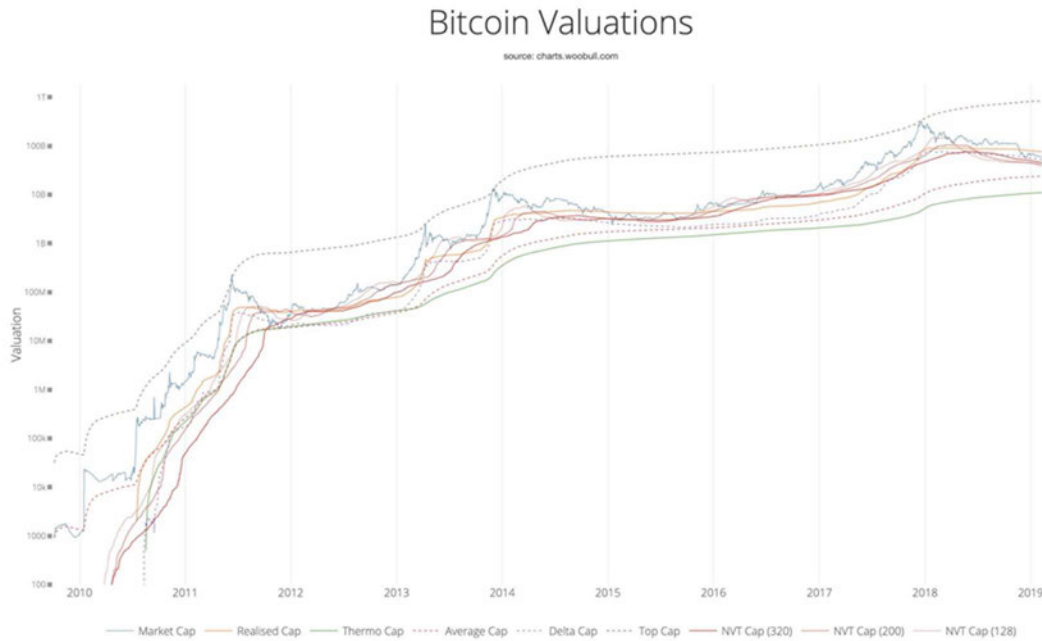
Dear Investors,

Over the last year, we've seen cryptocurrency market capitalization drop precipitously from March 2018 levels of \$330B to today's levels of \$130B, after hitting a peak of over \$800B in early 2018. As we have learned over the last year of research, volatility in cryptocurrency markets is far from a random phenomenon. In this quarterly update, we will shed more light on our long-term market view, and lay out two potential market scenarios for investors to consider.

### **Overview**

Unlike other commodities, Bitcoin is produced autonomously and emitted at a fixed rate, making it prone to periods of illiquidity and volatility. The emission schedule is also deflationary, reducing bitcoin mining rewards by 50 percent roughly every four years, an event known as a "halving." It is critical to remember that these periods of volatility are cyclical, not secular, and the periodicity of these cycles is a direct result of the deflationary emission schedule.

Here is an overall view of Bitcoin price cycles since inception (chart credit Willy Woo):



Here is the same chart, with halvings marked:



Below is how we expect this cycle to end and transition to a new cycle. Note the vertical black line marking the next Bitcoin halving, when the emission rate will be reduced from 12.5 BTC per block to 6.25 BTC per block (chart credit Murad Mahmudov):



When emission rates are reduced, miners (who generate bitcoin) must increase the asking price for the bitcoins they generate, in an effort to meet pre-halving revenue levels with only half the supply to sell. Because miners are the only natural sellers in the marketplace, and bitcoins cannot be counterfeited, the reduction in available supply begets major price moves. However, the particulars of *where and when miners begin to reduce selling* is hard to know, in turn making it difficult to predict when the market price will react to the reduced rate of emission.

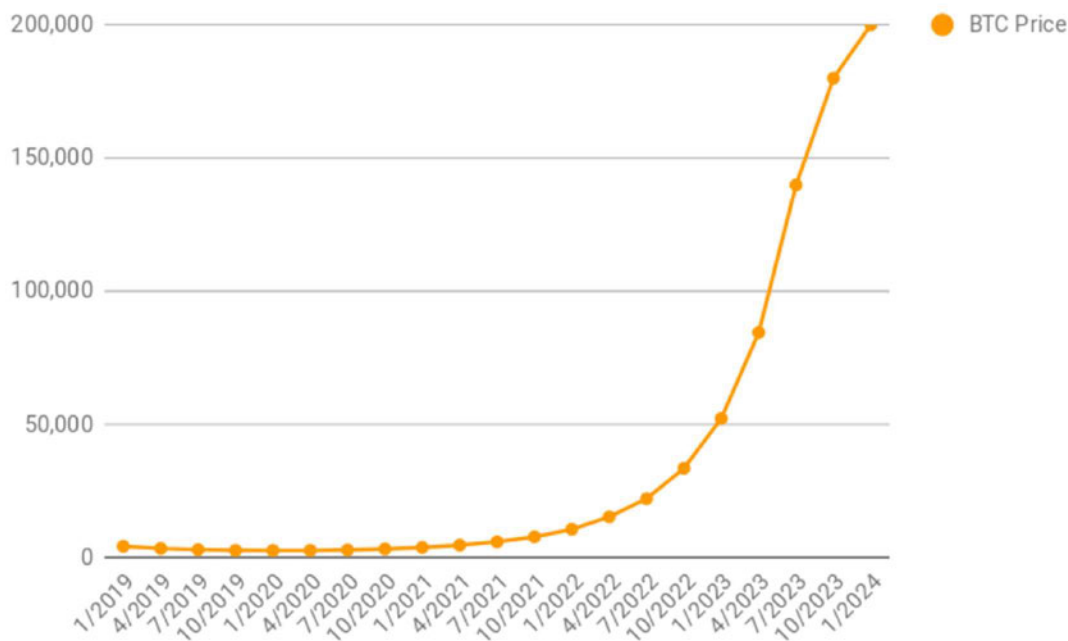
## Two Views of the Future

Today we will present investors with an early look at how we see the Fund's AUM grow as Bitcoin moves through its market cycle, and more importantly, we address the question of investor liquidity.

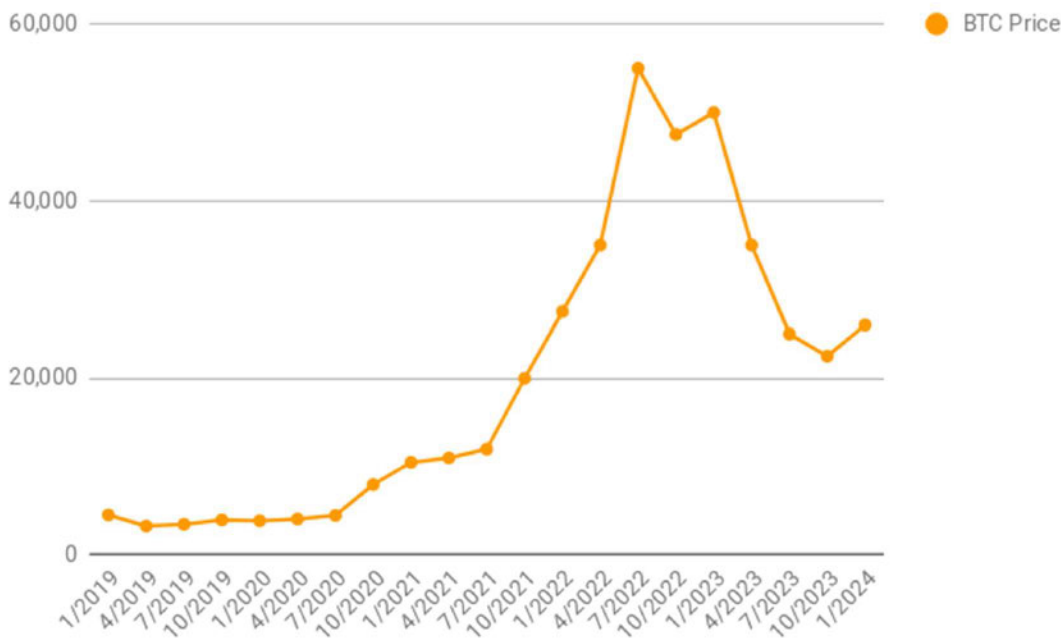
Our mining machines continue to accumulate coins, and we continue to find ways to lower our overheads and thus the cost basis on the coins we mine. However, at some point our machines will reach the end of their effective life, at which point our attention will turn to selling rewards.

Here are two potential views of the market around the next Bitcoin halving. (This can be thought of as the equivalent of a quantitative tightening scheme which never eases, and continues on a one-way ratchet.)

Scenario 1 assumes that the halving event is already priced into today's market, and shows the effect of illiquidity on price as being slow and gradual:

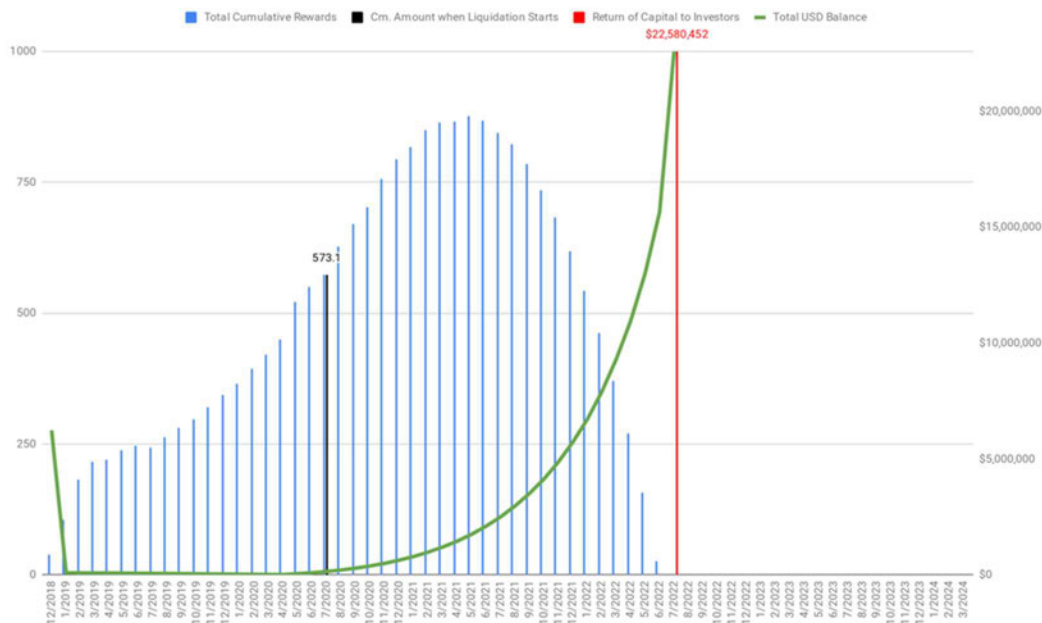


Scenario 2 assumes the halving is not baked into today's pricing, and anticipates a jump in price nearer to the actual date of the halving, which will occur around May 2020:



Using the projections above, we can lay out two possible liquidation scenarios for the Fund, once the mining period for its machines is over. Scenario 1 predicts the optimal liquidation interval to be August 2020 to June 2022.

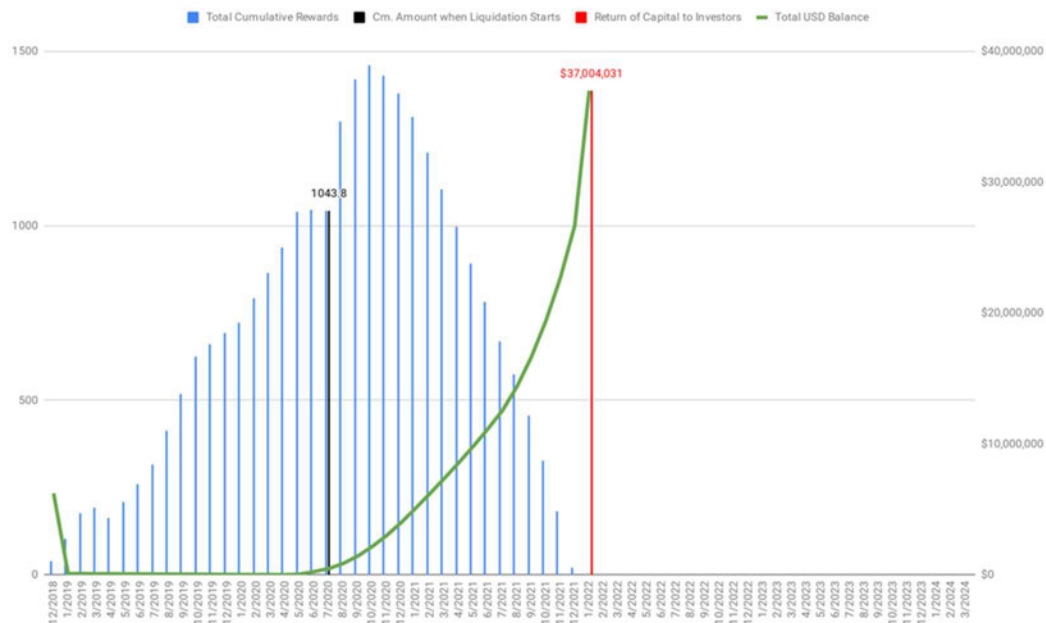
#### Scenario 1



As seen above, the green line (USD AUM) drops as investments are made into machines and long positions. The blue bars show mining rewards growing cumulatively as machines operate and long rewards earn a staking reward. Finally, the liquidation period begins in late 2020 (the black vertical line) culminating in June 2020 with an AUM of approximately \$22.6M, or a return of roughly 45 percent on invested capital.

## Scenario 2

Also using the projections above, we can extrapolate a second scenario. Liquidating from August 2020 to Jan 2022, this scenario returns \$37M, representing a 2.4x return on invested capital.



Unfortunately, the cryptocurrency asset class is still too immature in terms of risk management products for miners to be able to "lock in" production costs the way that farmers or energy miners do; shorting Bitcoin itself is expensive and risky, while borrowing other smaller-cap coins to sell is almost impossible. Despite its fearsome volatility, we continue to see Bitcoin's path fitting into its cyclical pattern, promising outsize returns for anyone patient enough to maintain exposure.

While much of this letter has concerned Bitcoin, we also remain sanguine about our altcoin portfolio. Most altcoins correlate with Bitcoin to the tune of 0.7 or above, but can diverge wildly, allowing for miners to take risk off. Returns YTD for our major altcoin positions are promising:

- DCR: 13.81%
- SIA: 1.59%
- RVN: 363.92%
- ZEL: 23.06%
- ETH: 2.45%

We encourage investors to examine these AUM projections, and welcome questions about our assumptions and the data behind the models.

Lastly, our tax administrator (Cohen and Co.) will be issuing tax estimates for the Fund during the second week of April (April 8-12). The Final K-1s will be released once audit is complete, which is anticipated to be in late May or early June.

## New Opportunities

As our understanding of the cryptocurrency mining industry improves, we continue to find low-risk, high-return strategies. Over the coming months, we will begin to circulate an outline of our next Mining Fund, which will build upon the alpha we've already developed, and help us scale our operations. Please let us know if you are interested in a sneak peek at our new mining offerings.

Sincerely,

Chris and Brandon

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